

**PARIS – HENRY COUNTY PUBLIC
UTILITY DISTRICT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED
MAY 31, 2017 and 2016**

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT

TABLE OF CONTENTS

Introductory Section

Directory	1
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Financial Section

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Financial Statements:	
Statements of Net Position	11
Statements of Revenues, Expenses and Changes in Net Position	12
Statements of Cash Flows	13
Notes to Financial Statements	15
Required Supplementary Information	
Schedules of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS	28
Schedules of Contributions Based on Participation in the Public Employee Pension Plan of TCRS	29

Supplementary Information Section

Schedules of Operating Revenues and Expenses	30
Schedule of Long-Term Debt	32
Gas Rates in Force and Number of Customers	33

Internal Control and Compliance Section

Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	34
Schedule of Findings and Responses	36
Schedule of Prior Findings and Responses	37

INTRODUCTORY SECTION

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
DIRECTORY
May 31, 2017

BOARD MEMBERS

Terry Pierce
Dr. Tom Wood
Steve Greer

MANAGEMENT TEAM

Tae Eaton, General Manager
Shannon L. French, Office Manager
Mark Bullion, Environmental Health and Safety Supervisor
Brian Ray French, Construction Supervisor
Bihn Chau, Operations Supervisor

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Alexander Thompson Arnold PLLC
Jackson, Tennessee

FINANCIAL SECTION



Independent Auditor's Report

Board of Commissioners
Paris – Henry County Public Utility District
Paris, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the Paris-Henry County Public Utility District (the District), as of and for the years ended May 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of May 31, 2017 and 2016, and respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedules of changes in net pension liability (asset) and related ratios based on participation in the public employee pension plan of TCRS, and schedules of contributions based on participation in the public employee pension plan of TCRS as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements. The introductory section and supplementary information section are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it or provide no assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its

Board of Commissioners
Paris – Henry County Public Utility District
Paris, Tennessee

compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Alexander Thompson Arnold, PE". The signature is written in a cursive style with a large, stylized initial 'A'.

Jackson, Tennessee
October 27, 2017

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT MANAGEMENT’S DISCUSSION AND ANALYSIS

May 31, 2017 and 2016

As management of the Paris – Henry County Public Utility District (the District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal years ended May 31, 2017 and 2016. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the District’s financial condition is strong. The District is well within its debt covenants and the more stringent financial policies and guidelines set by the Board and management. The following are key financial highlights.

- Total assets and deferred outflows of resources at year-end were \$17.48 million and \$150 thousand, respectively, and exceeded liabilities and deferred inflows of resources in the amount of \$16.58 million (i.e. net position). Total assets increased by \$350 thousand due primarily to a significant increase in capital assets related to the transmission and distribution system.
- Net position increased by \$324 thousand during the current year due to operating income of \$284 thousand for the year.
- Operating revenues were \$4.78 million, an increase from the year 2016 in the amount of \$248 thousand or 5.48%. Customer gas rates increased in the current year is the major reason for the increase.
- Operating expenses were \$4.49 million, an increase from the year 2016 in the amount of \$341 thousand or 8.21%.
- Operating income for the year was \$284 thousand as compared to operating income of \$377 thousand in the prior year. Due to continuing to have mild winters, gas usage has remained relatively stable over the last couple of years.
- Ratios of operating income to total operating revenue were 5.95 and 8.33, for 2017 and 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Management’s Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management’s examination and analysis of the District’s financial condition and performance. Summary financial statement data, key financial and operational indicators used in the District’s strategic plan, budget, bond resolutions and other management tools were used for this analysis. The Financial Statements and Supplementary Information is made up of four sections: 1) the introductory section, 2) the financial section, 3) supplementary information section, and 4) the internal control and compliance section. The introductory section includes the District’s directory. The financial section includes the independent auditor’s report, MD&A, financial statements with accompanying notes, and required supplementary information. The supplementary information section includes selected financial and operational information. The internal control and compliance section includes the report on internal control and compliance. These sections make up the financial report presented here.

REQUIRED FINANCIAL STATEMENTS

A proprietary fund is used to account for the operations of the District, which is financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS**

May 31, 2017 and 2016

The financial statements report information about the District, using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The *Statements of Net Position* presents the financial position of the District on a full accrual historical cost basis. The statement includes all of the District's assets, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. It provides information about the nature and amounts of investments in resources (assets) and the obligations to the District's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District, and assessing the liquidity and financial flexibility of the District.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement measures the success of the District's operations and can be used to determine whether the District has successfully recovered all of its costs. This statement also measures the District's profitability and credit worthiness.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipt and cash disbursement information, without consideration of the earnings event, when an obligation arises.

The *Notes to the Financial Statements* provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the District's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

FINANCIAL ANALYSIS

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District, and the changes in the net position. Net position is one way to measure the financial health or financial position of the District. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The District's total net position increased for the fiscal year ended May 31, 2017 and 2016, respectively. The analysis below focuses on the District's net position (Table 1A and 1B) and changes in net position (Table 2A and 2B) during the years.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS**

May 31, 2017 and 2016

CONDENSED STATEMENTS OF NET POSITION (TABLE 1A)

	May 31, 2017	May 31, 2016	Increase (Decrease)	
			\$	%
Current and other assets	\$ 8,889,636	\$ 9,017,740	\$ (128,104)	-1.42%
Capital assets	8,591,535	8,112,978	478,557	5.90%
Total assets	17,481,171	17,130,718	350,453	2.05%
Deferred outflows of resources	149,699	147,487	2,212	1.50%
Long-term liabilities	236,310	239,911	(3,601)	-1.50%
Other liabilities	797,690	689,849	107,841	15.63%
Total liabilities	1,034,000	929,760	104,240	11.21%
Deferred inflows of resources	17,074	92,900	(75,826)	-81.62%
Net investment in capital assets	8,355,225	7,873,067	482,158	6.12%
Restricted - pension	56,794	102,351	(45,557)	-44.51%
Unrestricted	8,167,777	8,280,127	(112,350)	-1.36%
Total net position	\$ 16,579,796	\$ 16,255,545	\$ 324,251	1.99%

CONDENSED STATEMENTS OF NET POSITION (TABLE 1B)

	May 31, 2016	May 31, 2015	Increase (Decrease)	
			\$	%
Current and other assets	\$ 9,017,740	\$ 8,509,667	\$ 508,073	5.97%
Capital assets	8,112,978	8,068,886	44,092	0.55%
Total assets	17,130,718	16,578,553	552,165	3.33%
Deferred outflows of resources	147,487	93,926	53,561	57.02%
Long-term liabilities	239,911	239,911	-	0.00%
Other liabilities	689,849	480,066	209,783	43.70%
Total liabilities	929,760	719,977	209,783	29.14%
Deferred inflows of resources	92,900	98,572	(5,672)	-5.75%
Net Investment in capital assets	7,873,067	7,825,496	47,571	0.61%
Restricted - pension	102,351	-	102,351	100.00%
Unrestricted	8,280,127	8,028,434	251,693	3.14%
Total net position	\$ 16,255,545	\$ 15,853,930	\$ 401,615	2.53%

The increase in capital assets was due primarily to significant upgrades to the transmission and distribution system. The overall increase in net position for 2017 was due to operating income of \$284 thousand and 2016 was due to operating income of \$377 thousand.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS**

May 31, 2017 and 2016

Changes in the District’s net position can be determined by reviewing the following condensed Statement of Revenues, Expenses and Changes in Net Position for the years.

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (TABLE 2A)

	May 31, 2017	May 31, 2016	Increase (Decrease)	
			\$	%
Operating Revenues	\$ 4,776,980	\$ 4,528,995	\$ 247,985	5.48%
Non-operating revenues	48,246	32,706	15,540	47.51%
Total revenues	<u>4,825,226</u>	<u>4,561,701</u>	<u>263,525</u>	5.78%
Cost of sales and service	2,324,852	2,117,104	207,748	9.81%
Transportation, distribution, shop and maintenance expense	608,669	586,472	22,197	3.78%
General and administrative expense	1,101,104	1,008,258	92,846	9.21%
Depreciation expense	456,833	438,551	18,282	4.17%
Taxes and tax equivalents	1,120	1,182	(62)	-5.25%
Non-operating expenses	8,397	8,519	(122)	100.00%
Total expenses	<u>4,500,975</u>	<u>4,160,086</u>	<u>340,889</u>	8.19%
Change in net position	324,251	401,615	(77,364)	-19.26%
Beginning net position	<u>16,255,545</u>	<u>15,853,930</u>	<u>401,615</u>	2.53%
Ending net position	<u>\$ 16,579,796</u>	<u>\$ 16,255,545</u>	<u>\$ 324,251</u>	1.99%

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT MANAGEMENT’S DISCUSSION AND ANALYSIS

May 31, 2017 and 2016

CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (TABLE 2B)

	May 31, 2016	May 31, 2015	Increase (Decrease)	
			\$	%
Operating Revenues	\$ 4,528,995	\$ 6,426,495	\$ (1,897,500)	-29.53%
Non-operating revenues	32,706	47,400	(14,694)	-31.00%
Total revenues	4,561,701	6,473,895	(1,912,194)	-29.54%
Cost of sales and service	2,117,104	3,566,009	(1,448,905)	-40.63%
Transportation, distribution, shop and maintenance expense	586,472	595,753	(9,281)	-1.56%
General and administrative expense	1,008,258	992,584	15,674	1.58%
Depreciation expense	438,551	452,052	(13,501)	-2.99%
Taxes and tax equivalents	1,182	1,130	52	4.60%
Non-operating expenses	8,519	8,636	(117)	-1.35%
Total expenses	4,160,086	5,616,164	(1,456,078)	-25.93%
Change in net position	401,615	857,731	(456,116)	-53.18%
Beginning net position	15,853,930	14,931,123	922,807	6.18%
Restatement - GASB 68 implementation	-	65,076	(65,076)	100.00%
Beginning net position - restated	15,853,930	14,996,199	857,731	5.72%
Ending net position	\$ 16,255,545	\$ 15,853,930	\$ 401,615	2.53%

Operating revenues showed a 5.48% increase from 2016 to 2017. This change was due to the increases in the gas rates in the current year. Net position showed an increase of 4.58% over the 3 year period due to the above mentioned facts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2017, the District had \$8.59 million (net of accumulated depreciation) invested in a broad range of utility capital assets. This investment includes land, land rights, buildings and improvements, distribution and transmission systems, and various types of equipment. Based on the uses of the aforementioned assets, they are classified for financial purposes as land, buildings and improvements, equipment, and transmission and distribution systems.

The following tables summarize the District’s capital assets, net of accumulated depreciation, and changes therein, for the years ended May 31, 2017 and 2016. These changes are presented in detail in Note 3D to the financial statements.

The major portion of the additions over the past three years, took place in the transmission and distribution systems. Many of the additions to the distribution plant result from the rehabilitation of deteriorating lines, so the impact on operating and maintenance costs should be favorable, but the impact on revenues will be slight. The District is also steadily expanding their service area which requires a significant investment in capital assets.

**PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS**

May 31, 2017 and 2016

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION (TABLE 3A)

	May 31, 2017	May 31, 2016	Increase (Decrease)	
			\$	%
Land	\$ 96,043	\$ 96,043	\$ -	0.00%
Buildings and Improvements	154,013	186,035	(32,022)	-17.21%
Equipment	424,517	327,016	97,501	29.82%
Transmission and distribution systems	7,916,962	7,503,884	413,078	5.50%
Total capital assets	\$ 8,591,535	\$ 8,112,978	\$ 478,557	5.90%

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION (TABLE 3B)

	May 31, 2016	May 31, 2015	Increase (Decrease)	
			\$	%
Land	\$ 96,043	\$ 96,043	\$ -	0.00%
Buildings and Improvements	186,035	212,103	(26,068)	-12.29%
Equipment	327,016	283,676	43,340	15.28%
Transmission and distribution systems	7,503,884	7,477,064	26,820	0.36%
Total capital assets	\$ 8,112,978	\$ 8,068,886	\$ 44,092	0.55%

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The Management of the District, in response to prior years’ weather anomalies, monitors the rate schedule for the possibility of climate changes. The District will continue to invest in upgrading its transmission and distribution lines.

CONTACTING THE AUTHORITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District’s finances for all those with an interest in the District’s finances and to demonstrate the District’s accountability for the money it receives. Questions concerning any information provided in this report or requests for any additional information should be directed to the General Manager of the Paris – Henry County Public Utility District, P.O. Box 309, Paris, TN 38242.

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
STATEMENTS OF NET POSITION
May 31, 2017

	<u>2017</u>	<u>2016</u>
Assets		
Current assets:		
Cash on hand	\$ 2,033	\$ 1,564
Cash and cash equivalents on deposit	7,195,859	7,372,625
Certificates of deposit	1,074,649	1,074,649
Accounts receivable (net of allowance for uncollectibles)	141,219	85,862
Interest receivable	917	917
Gas inventory	304,430	231,574
Materials and supplies inventory	88,571	93,258
Prepayments and other current assets	<u>25,164</u>	<u>54,940</u>
Total current assets	<u>8,832,842</u>	<u>8,915,389</u>
Noncurrent assets:		
Net pension asset	<u>56,794</u>	<u>102,351</u>
Capital assets, not being depreciated		
Land	96,043	96,043
Capital assets, net of accumulated depreciation		
Buildings and improvements	154,013	186,035
Equipment	424,517	327,016
Transmission and distribution system	<u>7,916,962</u>	<u>7,503,884</u>
Total capital assets (net of accumulated depreciation)	<u>8,591,535</u>	<u>8,112,978</u>
Total assets	<u>17,481,171</u>	<u>17,130,718</u>
Deferred outflows of resources		
Deferred outflows - pensions	<u>149,699</u>	<u>147,487</u>
Total deferred outflows of resources	<u>149,699</u>	<u>147,487</u>
Liabilities		
Current liabilities:		
Accounts payable	145,971	102,242
Budget customer credits	259,564	214,846
USDA loan - current	3,727	3,601
Consumers' deposits	<u>392,155</u>	<u>372,761</u>
Total current liabilities	<u>801,417</u>	<u>693,450</u>
Noncurrent liabilities:		
USDA loan	<u>232,583</u>	<u>236,310</u>
Total liabilities	<u>1,034,000</u>	<u>929,760</u>
Deferred inflows of resources		
Deferred inflows - pensions	<u>17,074</u>	<u>92,900</u>
Net position		
Net investment in capital assets	8,355,225	7,873,067
Restricted - pension	56,794	102,351
Unrestricted	<u>8,167,777</u>	<u>8,280,127</u>
Total net position	<u>\$ 16,579,796</u>	<u>\$ 16,255,545</u>

The notes to the financial statements are an integral part of this statement.

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Charges for sales and services	\$ 4,667,666	\$ 4,412,448
Other revenues	109,314	116,547
Total operating revenues	<u>4,776,980</u>	<u>4,528,995</u>
Operating expenses:		
Cost of sales and services	2,324,852	2,117,104
Transportation, distribution, shop, and maintenance expenses	608,669	586,472
General and administrative expenses	1,101,104	1,008,258
Provision for depreciation	456,833	438,551
Taxes and tax equivalents	<u>1,120</u>	<u>1,182</u>
Total operating expenses	<u>4,492,578</u>	<u>4,151,567</u>
Operating income (loss)	<u>284,402</u>	<u>377,428</u>
Nonoperating revenues (expenses):		
Interest and dividend income	41,626	32,706
Interest expense	(8,397)	(8,519)
Gain on sale of assets	<u>6,620</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>39,849</u>	<u>24,187</u>
Change in net position	324,251	401,615
Net position - beginning	<u>16,255,545</u>	<u>15,853,930</u>
Net position - ending	<u>\$ 16,579,796</u>	<u>\$ 16,255,545</u>

The notes to the financial statements are an integral part of this statement.

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from consumers	\$ 4,766,341	\$ 4,687,206
Cash paid to suppliers of goods and services	(2,842,421)	(2,702,843)
Cash paid to employees for services	(1,219,349)	(1,128,157)
Customer deposits received	73,010	53,985
Customer deposits refunded	(53,616)	(42,199)
Taxes paid including payments in lieu of taxes	(1,120)	(1,182)
Net cash provided (used) by operating activities	<u>722,845</u>	<u>866,810</u>
Cash flows from capital and related financing activities:		
Construction and acquisition of plant	(935,390)	(482,643)
Principal paid on long-term debt	(3,601)	(3,479)
Interest paid on long-term debt	(8,397)	(8,519)
Sale of assets	6,620	-
Net cash provided (used) by capital and related financing activities	<u>(940,768)</u>	<u>(494,641)</u>
Cash flows from investing activities:		
Purchase of investment	(1,074,649)	(1,074,649)
Proceeds from sale of investments	1,074,649	1,074,649
Interest collected	41,626	29,643
Net cash provided (used) by investing activities	<u>41,626</u>	<u>29,643</u>
Net increase (decrease) in cash and cash equivalents	(176,297)	401,812
Cash and cash equivalents - beginning of year	<u>7,374,189</u>	<u>6,972,377</u>
Cash and cash equivalents - end of year	<u>\$ 7,197,892</u>	<u>\$ 7,374,189</u>
Cash and cash equivalents:		
Unrestricted cash on hand	\$ 2,033	\$ 1,564
Unrestricted cash and cash equivalents on deposit	<u>7,195,859</u>	<u>7,372,625</u>
Total cash and cash equivalents	<u>\$ 7,197,892</u>	<u>\$ 7,374,189</u>

The notes to the financial statements are an integral part of this statement.

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 284,402	\$ 377,428
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation expense	456,833	438,551
(Increase) decrease in accounts receivable	(55,357)	(56,635)
(Increase) decrease in inventories	(68,169)	(62,595)
(Increase) decrease in prepayments and other assets	29,776	331
(Increase) decrease in pension items	(32,481)	(43,532)
Increase (decrease) in accounts payable	43,729	(13,370)
Increase (decrease) in budget customer credits	44,718	214,846
Increase (decrease) in customer deposits	19,394	11,786
Net cash provided (used) by operating activities	<u>\$ 722,845</u>	<u>\$ 866,810</u>

The notes to the financial statements are an integral part of this statement.

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
May 31, 2017 and 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

These are proprietary fund financial statements and include only the financial activities of Paris – Henry County Public Utility District. The District was created under the authority of Title 7, Chapter 82, *Tennessee Code Annotated*, the Utility District Law of 1937 for the purpose of providing natural gas service to Paris, Tennessee, portions of Henry County, and Hazel, Kentucky.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when the liability is incurred regardless of the timing of the related cash flows. The accounting policies of the District conform to generally accepted accounting principles as defined by Governmental Accounting Standards Board (GASB).

Proprietary funds distinguish operating revenues and expense from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the District are charges for sales to customers for sales and service. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

C. Assets, Liabilities, Deferred Outflows/Inflows, and Net Position

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements and the state's investment pool.

Accounts Receivable

Trade receivables result from unpaid billings for gas service to customers. All trade receivables are shown net of an allowance for uncollectible accounts. The allowance for uncollectible customer accounts recorded by the District is based on past history of uncollectible accounts and management's analysis of current accounts.

Inventories and Prepaid Items

Gas inventory consists of purchased natural gas that is stored in the ANR pipeline system and is valued at the lower of average cost or market. Materials and supplies inventory is valued at the

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
May 31, 2017 and 2016

lower of average cost or market, using the first-in/first-out (FIFO) method. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and construction in progress, are defined by the District as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the District is depreciated using the straight line method over the following useful lives:

Building and improvements	7 - 47 years
Equipment	3 - 10 years
Transmission and distribution plant	7 - 47 years

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of Paris Henry County Utility District's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Paris Henry County Utility District's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has pension-related items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Items that qualify for reporting in this category as of May 31, 2017 are pension-related items.

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
May 31, 2017 and 2016

the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Net Position

Equity is classified as net position and displayed in the following components:

- Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation and related debt
- Restricted – Consists of net position for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations, and enabling legislation, including self-imposed legal mandates, less any related liabilities. The restrictions are evident from the classification titles.
- Unrestricted – All other net position amounts that do not meet the description of the above categories.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent amounts and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were used.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The District adopts flexible annual operating and capital budgets. Budgets are adopted on a basis consistent with generally accepted accounting principles. The current operating budget details the District's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contribution fees, special assessments, grants, borrowings, and certain revenues for capital projects. All unexpended budgeted amounts remaining at the end of the fiscal year in the operating budget lapse.

Management submits a proposed budget to the District's Board prior to the May Board meeting. A budget is then adopted at the May meeting for the next fiscal year. During the year, management is authorized to transfer budgeted amounts between line items.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk

The District's policies limit deposits and investments to those instruments allowed by applicable state laws and described in Note 1. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance, by the Tennessee Bank Collateral Pool, by collateral held by the District's agent in the District's name, or by the Federal Reserve Banks acting as third party agents. State statutes also authorize the District to invest in bonds, notes or treasury bills of the United States or any of its agencies, certificates of deposit at Tennessee state chartered banks and savings and loan associations and federally

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
May 31, 2017 and 2016

chartered banks and savings and loan associations, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities and the state pooled investment fund. Statutes also require that securities underlying repurchase agreements must have a market value of at least equal to the amount of funds invested in the repurchase transaction. As of May 31, 2017, it was noted that all bank deposits were fully collateralized or insured.

B. Receivables

Receivables as of the fiscal year ends were made up of the following:

	May 31,	
	2017	2016
Billed services for utility customers	201,423	145,659
Other accounts receivable	11,913	12,320
Allowance for doubtful accounts	(72,117)	(72,117)
Total	<u>\$ 141,219</u>	<u>\$ 85,862</u>

C. Net Position

Net position represents the difference between assets and liabilities. The net position amounts are as follows:

	May 31,	
	2017	2016
Capital assets	8,591,535	8,112,978
Less: debt as disclosed in Note 3E	<u>(236,310)</u>	<u>(239,911)</u>
Net investment in capital assets	8,355,225	7,873,067
Unrestricted	8,224,571	8,382,478
Total net position	<u>\$ 16,579,796</u>	<u>\$ 16,255,545</u>

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
May 31, 2017 and 2016

D. Capital Assets

Capital asset activity during the years were as follows:

<u>Description</u>	<u>Balance at May 31, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at May 31, 2017</u>
Capital assets, not being depreciated				
Land	\$ 96,043	\$ -	\$ -	\$ 96,043
Total capital assets not being depreciated	<u>96,043</u>	<u>-</u>	<u>-</u>	<u>96,043</u>
Capital assets, being depreciated				
Buildings and improvements	525,598	4,960	-	530,558
Equipment	1,521,177	185,622	41,665	1,665,134
Transmission and distribution system	<u>14,277,981</u>	<u>744,808</u>	<u>-</u>	<u>15,022,789</u>
Total capital assets being depreciated	<u>16,324,756</u>	<u>935,390</u>	<u>41,665</u>	<u>17,218,481</u>
Less accumulated depreciation for:				
Buildings and improvements	339,563	36,982	-	376,545
Equipment	1,194,161	88,121	41,665	1,240,617
Transmission and distribution system	<u>6,774,097</u>	<u>331,730</u>	<u>-</u>	<u>7,105,827</u>
Total accumulated depreciation	<u>8,307,821</u>	<u>456,833</u>	<u>41,665</u>	<u>8,722,989</u>
Total capital assets, being depreciated, net	<u>8,016,935</u>	<u>478,557</u>	<u>-</u>	<u>8,495,492</u>
Total capital assets, net	<u>\$ 8,112,978</u>	<u>\$ 478,557</u>	<u>\$ -</u>	<u>\$ 8,591,535</u>

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
May 31, 2017 and 2016

Description	Balance at May 31, 2015	Additions	Disposals	Balance at May 31, 2016
Capital assets, not being depreciated				
Land	96,043	-	-	96,043
Total capital assets not being depreciated	96,043	-	-	96,043
Capital assets, being depreciated				
Buildings and improvements	515,603	9,995	-	525,598
Equipment	1,409,030	112,147	-	1,521,177
Transmission and distribution system	13,917,480	360,501	-	14,277,981
Total capital assets being depreciated	15,842,113	482,643	-	16,324,756
Less accumulated depreciation for:				
Buildings and improvements	303,500	36,063	-	339,563
Equipment	1,125,354	68,807	-	1,194,161
Transmission and distribution system	6,440,416	333,681	-	6,774,097
Total accumulated depreciation	7,869,270	438,551	-	8,307,821
Total capital assets, being depreciated, net	7,972,843	44,092	-	8,016,935
Total capital assets, net	\$ 8,068,886	\$ 44,092	\$ -	\$ 8,112,978

Depreciation expense amounted to \$456,833 and \$438,551 for the fiscal years ended May 31, 2017 and 2016, respectively.

E. Long-term Debt

At year-end, the District's long-term liabilities consisted of one loan. It is a Community Facilities Loan through USDA's Rural Development. This loan is payable annually at an interest rate of 3.5%, with the annual payment being \$11,998. The balance of the loan at May 31, 2017 is \$236,310.

The following is a summary of long-term debt transactions for the year ended May 31, 2017.

	Balance 5/31/2016	Issued	Retired	Balance 5/31/2017	Due Within One Year
USDA Loan	\$ 239,911	\$ -	\$ 3,601	\$ 236,310	\$ 3,727

The scheduled annual requirements for long-term debt at May 31, 2017, including interest of \$171,530 are as follows:

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
May 31, 2017 and 2016

Year Ending			
<u>May 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 3,727	\$ 8,271	\$ 11,998
2019	3,857	8,141	11,998
2020	3,992	8,006	11,998
2021	4,132	7,866	11,998
2022	4,276	7,722	11,998
2023-2027	23,733	36,257	59,990
2028-2032	28,184	31,806	59,990
2033-2037	33,470	26,520	59,990
2038-2042	39,751	20,239	59,990
2043-2047	47,210	12,780	59,990
2048-2051	43,978	3,922	47,900
	<u>\$236,310</u>	<u>\$171,530</u>	<u>\$407,840</u>

NOTE 4 - OTHER INFORMATION

A. Employee Retirement Systems and Pension Plans

Tennessee Consolidated Retirement System

Plan Description

Employees of Paris-Henry County Utility District are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). The TCRS was created by state statute under *Tennessee Code Annotated* Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided

Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
May 31, 2017 and 2016

change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees covered by benefit terms

At the measurement date of June 30, 2016 and 2015, the following employees were covered by the benefit terms:

	<u>2016</u>	<u>2015</u>
Inactive employees or beneficiaries currently receiving benefits	2	2
Inactive employees entitled to but not yet receiving benefits	4	2
Active employees	<u>14</u>	<u>13</u>
	<u>20</u>	<u>17</u>

Contributions

Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees contribute 5 percent of salary. Paris Henry County Utility District makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2016 and 2015, employer contributions for Paris Henry County Utility District were \$47,435 and \$45,679 respectively, based on a rate of 7.03 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Paris Henry County Utility District's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Paris Henry County Utility District's net pension asset was measured as of June 30, 2016 for the fiscal year ended May 31, 2017 and as of June 30, 2015 for the fiscal year ended May 31, 2016, and the total pension liability used to calculate net pension asset was determined by an actuarial valuation as of that date.

Actuarial assumptions

The total pension liability as of June 30, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of pension plan investment expenses, including inflation
Cost-of-Living Adjustment	2.5 percent

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2016 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
May 31, 2017 and 2016

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	6.46%	33%
Developed market international equity	6.26%	17%
Emerging market international equity	6.40%	5%
Private equity and strategic lending	4.61%	8%
U.S. fixed income	0.98%	29%
Real estate	4.73%	7%
Short-term securities	0.00%	1%
		<u>100%</u>

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Paris Henry County Utility District will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments by current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
May 31, 2017 and 2016

Changes in the Net Pension Liability (Asset)

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 6/30/15	1,568,979	1,671,330	(102,351)
Changes for the year:			
Service cost	46,234	-	46,234
Interest	118,943	-	118,943
Differences between expected and actual experience	5,094	-	5,094
Contributions-employer	-	47,685	(47,685)
Contributions-employees	-	33,488	(33,488)
Net investment income	-	44,617	(44,617)
Benefit payments, including refunds of employee contributions	(58,626)	(58,626)	-
Administrative expense	-	(1,076)	1,076
Net changes	<u>111,645</u>	<u>66,088</u>	<u>45,557</u>
Balance at 6/30/16	<u><u>1,680,624</u></u>	<u><u>1,737,418</u></u>	<u><u>(56,794)</u></u>

	Total Pension Liability (a)	Increase (Decrease) Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balance at 6/30/14	1,494,180	1,609,169	(114,989)
Changes for the year:			
Service cost	47,645	-	47,645
Interest	113,193	-	113,193
Differences between expected and actual experience	(20,868)	-	(20,868)
Contributions-employer	-	45,769	(45,769)
Contributions-employees	-	32,552	(32,552)
Net investment income	-	49,752	(49,752)
Benefit payments, including refunds of employee contributions	(65,171)	(65,171)	-
Administrative expense	-	(741)	741
Net changes	<u>74,799</u>	<u>62,161</u>	<u>12,638</u>
Balance at 6/30/15	<u><u>1,568,979</u></u>	<u><u>1,671,330</u></u>	<u><u>(102,351)</u></u>

Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of Paris Henry County Utility District calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
May 31, 2017 and 2016

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Paris Henry County Utility District's net pension liability (asset)			
June 30, 2016 \$	213,961	\$ (56,794)	\$ (281,000)
June 30, 2015 \$	153,371	\$ (102,351)	\$ (312,821)

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense

For the years ended June 30, 2017 and 2016, Paris Henry County Utility District recognized pension expense of \$15,908 and \$298, respectively.

Deferred outflows of resources and deferred inflows of resources

For the year ended June 30, 2017 and 2016, Paris Henry County Utility District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 46,678	\$ 17,074
Net difference between projected and actual earnings on pension plan investments	58,785	-
Contributions subsequent to the measurement date of June 30, 2016	44,236	-
	<u>\$ 149,699</u>	<u>\$ 17,074</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 46,834	\$ 18,971
Net difference between projected and actual earnings on pension plan investments	57,121	73,929
Contributions subsequent to the measurement date of June 30, 2015	43,532	-
	<u>\$ 147,487</u>	<u>\$ 92,900</u>

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2016," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period.

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
May 31, 2017 and 2016

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2018	\$	9,298
2019		9,298
2020		33,941
2021		19,661
2022		3,353
Thereafter		12,846

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Year Ended June 30:		
2017	\$	(7,576)
2018		(7,576)
2019		(7,576)
2020		17,067
2021		2,787
Thereafter		13,935

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

Defined Contribution Plans

Tennessee State Employees Deferred Compensation 457(b) and 401(k) Plans

The District provides benefits for all its full-time employees through a single employer defined contribution plan in the form of a 457(b) deferred compensation plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees cannot contribute more than 3% of their salary if they are also members of the TCRS retirement plan. Employees are eligible to participate in this plan on the first day of the month coinciding with start of employment or following their completion of 6 months of service. The District does not make any employer contributions to this plan. Since the District does not make contributions, they will not recognize expense or forfeitures related to this plan. The plan permits participants to make voluntary contributions in whole percentage or in any dollar amount up to 7% of compensation. The plan was adopted by the District on June 23, 2015. The Plan is funded by an annuity contract and administered by Empower through the State of Tennessee.

Also on June 23, 2015, the District began allowing employees to begin contributing to a defined contribution 401(k) Plan. The District's Board of Commissioners makes an annual decision on the

PARIS – HENRY COUNTY PUBLIC UTILITY DISTRICT
NOTES TO FINANCIAL STATEMENTS
May 31, 2017 and 2016

amount of contributions to this plan. All of the participation requirements are the same as Deferred Compensation Plan noted above, as these plans were adopted at the same time. The District's contributions for employees who leave before the vesting period is complete will be transferred out of the plan investment account back into the District's bank account. The vesting period is 20% after year 1, 40% after year 2, 60% after year 3, 80% after year 4, and 100% after completing five years of service. Total employer contributions to this plan were \$4,250 and \$3,500 for the fiscal years ended May 31, 2017 and 2016.

Nationwide 457(b) Plan

The District provides benefits for all its full-time employees through a single employer defined contribution plan in the form of a 457(b) deferred compensation plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate the first day of employment. The District does not make any employer contributions to this plan. Since the District does not make contributions, they will not recognize expense or forfeitures related to this plan. The plan permits participants to make voluntary contributions in whole percentage or in any dollar amount up to 7% of compensation. The plan was adopted by the District on June 1, 2010. The Plan is funded by an annuity contract and administered by Nationwide.

B. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended May 31, 2017 and 2016, the District purchased commercial insurance for all of the above risks. There have been no settled claims exceeding the commercial coverage in any of the past three years and there have been no significant reduction in the amount of coverage provided.

C. Subsequent Events

Management has evaluated subsequent events through October 27, 2017, the date in which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios Based on Participation in the Public
Employee Pension Plan of TCRS
Last Fiscal Year Ending June 30

	2014	2015	2016
Total pension liability			
Service cost	\$ 47,389	\$ 47,645	\$ 46,234
Interest	102,524	113,193	118,943
Changes in benefit terms	-	-	-
Differences between actual & expected experience	56,202	(20,868)	5,094
Change of assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(63,063)	(65,171)	(58,626)
Net change in total pension liability	143,052	74,799	111,645
Total pension liability - beginning	1,351,128	1,494,180	1,568,979
Total pension liability - ending (a)	1,494,180	1,568,979	1,680,624
 Plan fiduciary net position			
Contributions - employer	\$ 85,743	\$ 45,769	\$ 47,685
Contributions - employee	31,593	32,552	33,488
Net investment income	225,013	49,752	44,617
Benefit payments, including refunds of employee contributions	(63,063)	(65,171)	(58,626)
Administrative expense	(578)	(741)	(1,076)
Net change in plan fiduciary net position	278,708	62,161	66,088
Plan fiduciary net position - beginning	1,330,461	1,609,169	1,671,330
Plan fiduciary net position - ending (b)	1,609,169	1,671,330	1,737,418
 Net Pension Liability (Asset) - ending (a) - (b)	<u>\$ (114,989)</u>	<u>\$ (102,351)</u>	<u>\$ (56,794)</u>
 Plan fiduciary net position as a percentage of total pension liability	107.70%	106.52%	103.38%
 Covered-employee payroll	\$ 631,860	\$ 651,047	\$ 674,752
 Net pension liability (asset) as a percentage of covered-employee payroll	-18.20%	-15.72%	-8.42%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
Schedule of Contributions Based on Participation in the Public Employee Pension Plan
of TCRS
Last Fiscal Year Ending June 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Actuarially determined contribution	\$ 85,743	\$ 45,769	\$ 47,685
Contributions in relation to the actuarially determined contribution	<u>85,743</u>	<u>45,769</u>	<u>47,685</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll	\$ 631,860	\$ 651,047	\$ 674,752
Contributions as a percentage of covered-employee payroll	13.57%	7.03%	7.07%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

Notes to Schedule:

Valuation Date: Actuarially determined contribution rates for 2015 were calculated based on the July 1, 2013 actuarial valuation.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Frozen initial liability
Amortization method	Level dollar, closed (not to exceed 20 years)
Remaining amortization period	1 year
Asset valuation	10-year smoothed within a 20 percent corridor to market value
Inflation	3.0 percent
Salary increases	Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent
Investment rate of return	7.5 percent, net of investment expense, including inflation
Retirement age	Pattern of retirement determined by experience study
Mortality	Customized table based on actual experience including an adjustment for some anticipated improvement
Cost of living adjustments	2.5 percent

See independent auditor's report.

SUPPLEMENTARY INFORMATION SECTION

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
SCHEDULE OF OPERATING REVENUES AND EXPENSES

For the Years Ended May 31, 2017 and 2016

	2017		2016	
	Actual	Percent	Actual	Percent
Operating revenues				
Charges for sales and services:				
Residential sales	\$ 2,049,056	42.89	\$ 1,994,201	44.03
Commercial sales	1,205,522	25.24	1,170,635	25.85
Industrial sales	1,413,088	29.58	1,247,612	27.55
Total charges for sales and services	<u>4,667,666</u>	<u>97.71</u>	<u>4,412,448</u>	<u>97.43</u>
Other revenues				
Penalties	37,760	0.79	35,579	0.79
Connection fees	17,150	0.36	18,425	0.41
Turn on charges	13,775	0.29	14,800	0.33
Installation charges	40,619	0.85	47,633	1.05
Other revenues	10	0.00	110	0.00
Total other revenues	<u>109,314</u>	<u>2.29</u>	<u>116,547</u>	<u>2.57</u>
Total operating revenues	<u>\$ 4,776,980</u>	<u>100.00</u>	<u>\$ 4,528,995</u>	<u>100.00</u>
Operating expenses				
Cost of sales and services:				
Purchased gas	<u>\$ 2,324,852</u>	<u>48.67</u>	<u>\$ 2,117,104</u>	<u>46.75</u>
Transportation, distribution, shop, and maintenance expenses				
Salaries	390,042	8.17	400,323	8.84
Payroll taxes	28,052	0.59	28,808	0.64
Workmen's compensation	18,406	0.39	17,091	0.38
Employee education and training	5,840	0.12	3,696	0.08
Advertising	80	-	59	-
Postage & freight	2,025	0.04	2,472	0.05
Utility services	22,940	0.48	18,116	0.40
Repairs and maintenance	100,287	2.10	79,822	1.76
Professional services	597	0.01	6,376	0.14
Operating supplies	5,428	0.11	4,621	0.10
Clothing and uniforms	5,194	0.11	5,494	0.12
Insurance	15,788	0.33	12,429	0.27
Travel	4,529	0.09	3,357	0.07
Tools	<u>9,461</u>	<u>0.20</u>	<u>3,808</u>	<u>0.08</u>
Total transportation, distribution, shop, and maintenance expenses	<u>\$ 608,669</u>	<u>12.74</u>	<u>\$ 586,472</u>	<u>12.93</u>

See independent auditor's report.

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
SCHEDULE OF OPERATING REVENUES AND EXPENSES

For the Years Ended May 31, 2017 and 2016

	2017		2016	
	Actual	Percent	Actual	Percent
General and administrative expenses:				
Salaries	\$ 450,215	9.42	\$ 396,423	8.75
Payroll taxes	33,130	0.69	29,615	0.65
Health insurance	298,002	6.24	269,005	5.94
Retirement	19,908	0.42	3,983	0.09
Workmen's compensation	2,042	0.04	3,889	0.09
Employee education and training	2,284	0.05	350	0.01
Postage & freight	36,189	0.76	36,897	0.81
Advertising and public relations	26,267	0.55	22,979	0.51
Credit card fees	21,694	0.45	24,066	0.53
Printing and publications	10,894	0.23	8,701	0.19
Memberships	36,015	0.75	25,883	0.57
Utility services	19,305	0.40	19,950	0.44
Professional services	67,318	1.41	61,642	1.36
Repairs and maintenance	18,044	0.38	18,306	0.40
Travel - members of management	6,195	0.13	11,996	0.26
Travel - other employees	3,323	0.07	3,061	0.07
Office supplies	11,898	0.25	33,983	0.75
Clothing and uniforms	3,349	0.07	2,168	0.05
Insurance	30,684	0.64	32,060	0.71
Land rental	3,270	0.07	2,516	0.06
Miscellaneous	1,078	0.02	785	0.02
Total general and administrative expenses	<u>1,101,104</u>	<u>23.04</u>	<u>1,008,258</u>	<u>22.26</u>
Depreciation and amortization	<u>456,833</u>	<u>9.56</u>	<u>438,551</u>	<u>9.68</u>
Taxes and tax equivalent	<u>1,120</u>	<u>0.02</u>	<u>1,182</u>	<u>0.03</u>
Total operating expenses	<u>\$ 4,492,578</u>	<u>94.03</u>	<u>\$ 4,151,567</u>	<u>91.65</u>

See independent auditor's report.

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
SCHEDULE OF LONG-TERM DEBT
May 31, 2017

Year Ended May 31,	USDA Loan	
	Principal	Interest
2018	\$ 3,727	\$ 8,271
2019	3,857	8,141
2020	3,992	8,006
2021	4,132	7,866
2022	4,276	7,722
2023	4,426	7,572
2024	4,581	7,417
2025	4,741	7,257
2026	4,907	7,091
2027	5,078	6,920
2028	5,256	6,742
2029	5,440	6,558
2030	5,630	6,368
2031	5,827	6,171
2032	6,031	5,967
2033	6,242	5,756
2034	6,460	5,538
2035	6,686	5,312
2036	6,920	5,078
2037	7,162	4,836
2038	7,413	4,585
2039	7,672	4,326
2040	7,941	4,057
2041	8,219	3,779
2042	8,506	3,492
2043	8,804	3,194
2044	9,112	2,886
2045	9,431	2,567
2046	9,761	2,237
2047	10,102	1,896
2048	10,456	1,542
2049	10,822	1,176
2050	11,200	798
2051	11,500	406
	<u>\$ 236,310</u>	<u>\$ 171,530</u>

See independent auditor's report.

PARIS - HENRY COUNTY PUBLIC UTILITY DISTRICT
GAS RATES IN FORCE AND NUMBER OF CUSTOMERS
May 31, 2017

	<u>Tennessee</u>	<u>Kentucky</u>
Residential rates:		
Customer charge - per delivery point per month	4.50	4.50
Charge - per 1000 cf	7.99	7.99
Commercial rates:		
Customer charge - per delivery point per month	6.00	6.00
Charge - per 1000 cf	7.99	7.99
Industrial rates:		
Customer charge - per delivery point per month	6.00	6.00
Charge - per 1000 cf	6.21	6.21
 Total customers	 <u>2017</u>	 <u>2016</u>
Residential	5,802	5,747
Commercial	987	969
Industrial	16	16
	<u>6,805</u>	<u>6,732</u>

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION



**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

Board of Commissioners
Paris – Henry County Public Utility District
Paris, Tennessee

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Paris-Henry County Public Utility District (the District) as of and for the year ended May 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 27, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given the limitations during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Commissioners
Paris – Henry County Public Utility District
Paris, Tennessee

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Alexander Thompson Arnold, PE". The signature is written in a cursive style with a large, stylized 'A' and 'T'.

Jackson, Tennessee
October 27, 2017

PARIS-HENRY COUNTY PUBLIC UTILITY DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
May 31, 2017 and 2016

FINANCIAL STATEMENT FINDINGS

There were no current year findings reported.

PARIS-HENRY COUNTY PUBLIC UTILITY DISTRICT
SCHEDULE OF PRIOR FINDINGS AND RESPONSES
May 31, 2017 and 2016

Financial Statement Findings

There were no prior year findings reported.